Seaborne Coal:
Recent Trends

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Price: recent trends

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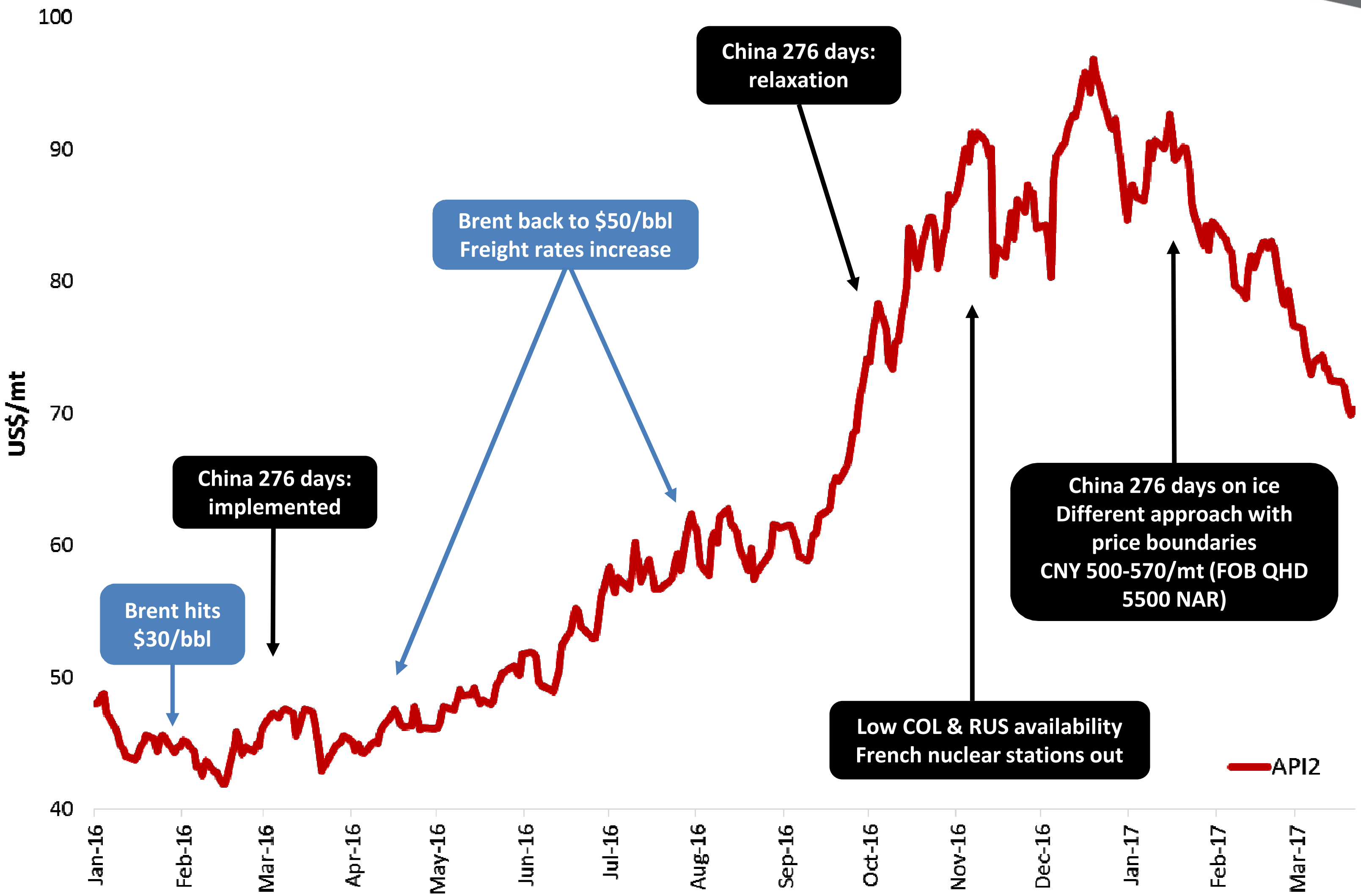

Prices: forward curve

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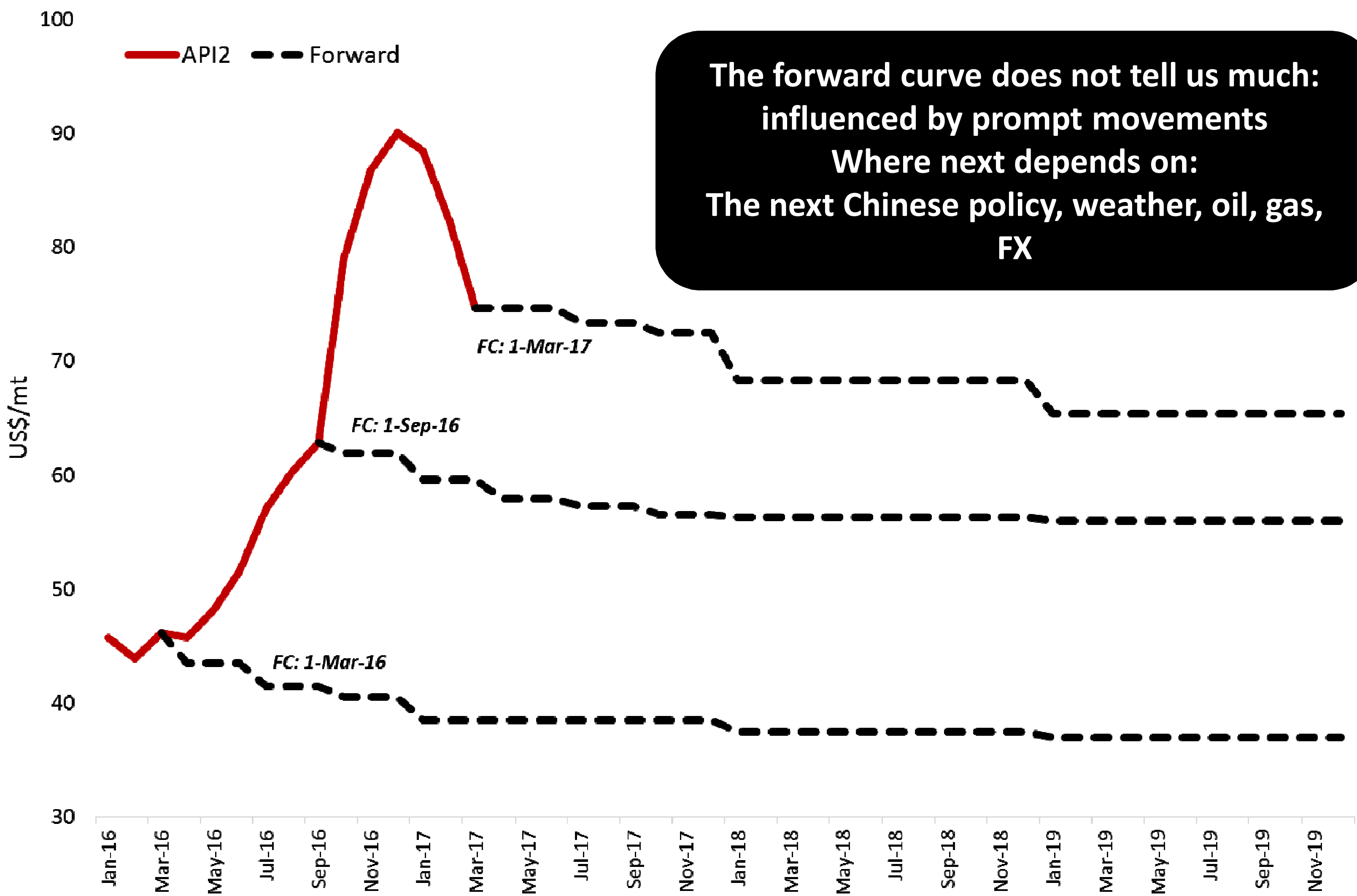

The forward curve does not tell us much: influenced by prompt movements
Where next depends on:
The next Chinese policy, weather, oil, gas, FX

Where is demand heading?

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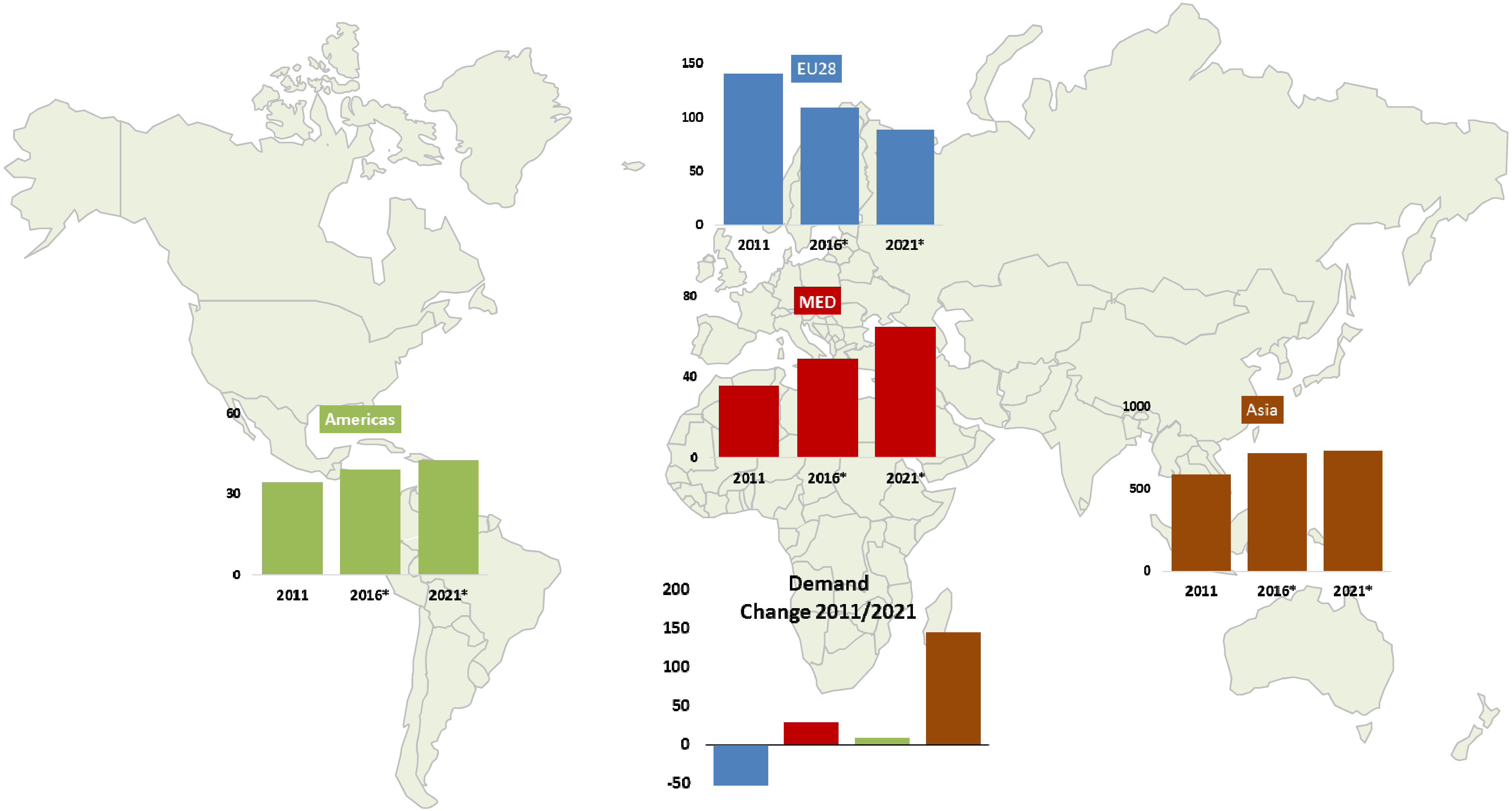

Average of industry estimates

Demand trends

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Demand in the Atlantic basin has already peaked

- In North West Europe demand is in terminal decline as a result of environmental regulation: EU ETS, carbon taxes and renewable incentives
- In the Mediterranean (Egypt, Israel*, Morocco and Turkey) and - to a lesser extent - in the Americas demand is showing continuing growth as coal use for electricity and industry increases (*Israel's imports affected by a directive to reduce coal use for generation)
- **However, taking the Atlantic basin as a whole, it appears that the growth in the Med and Americas is not enough to offset the decline in Europe**

In the Pacific basin, demand continues to grow underpinned by emerging economies

- Japan and South Korean coal generation running baseload, import demand will remain more or less stable
- Imports in China peaked in 2013; BUT reforms to the domestic industry driving import requirements
- Indian demand is declining as domestic production increases; BUT production targets are very ambitious and India will continue to rely on imports
- Strong growth is expected from emerging economies in South Asia and the need for cheap energy: Malaysia, Philippines, Vietnam and Pakistan
- **Overall, most consultancies forecast demand growth in the Pacific; but China and India remain pivotal**

Supply trends

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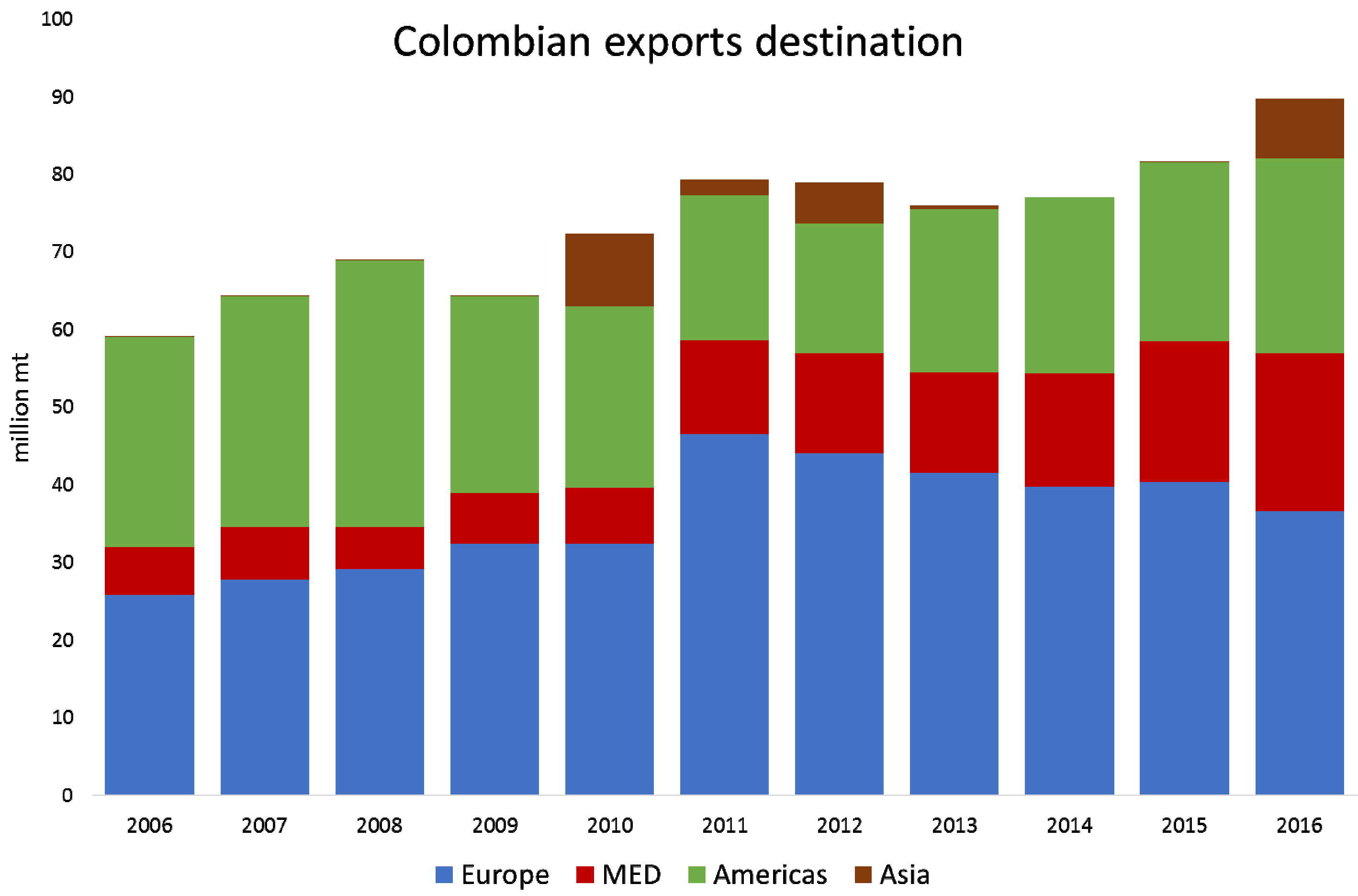
Global Supply:

- USA exports peaked in 2012 (~47 Mt) and have since declined due to the fall of international prices; it will remain a swing supplier in both basins
- Russian exports fell in the Atlantic after the collapse in the UK and only partially offset by an increase in the Mediterranean (i.e. Morocco and Turkey); exports continue to increase to the Far East where there is more than 30 Mt of additional export capacity to be commissioned over the next few years
- South African exports will remain fairly stable, hampered by the emergence of additional domestic demand in a few years; exports to the ATL have fallen Y/Y as prices are better in the PAC, but exposure to India (>50%) has made them look for new markets: Sri Lanka, South Korea, Pakistan
- Australia surpassed 200 Mt of exports in 2014, but the low-price environment forced producers to reduce output in 2016; apart from the resumption of few mines, ongoing expansions, or productivity gains, there are no significant new green field developments
- Indonesia has assumed the role of the balancing supplier, its exposure to China and India make them vulnerable to large fluctuations
- Colombia will continue to increase exports (next)

Colombia exports



Swing supplier in the PAC

Stable in the Americas

Increasing in the MED

Declining in Europe

Where next for Colombia

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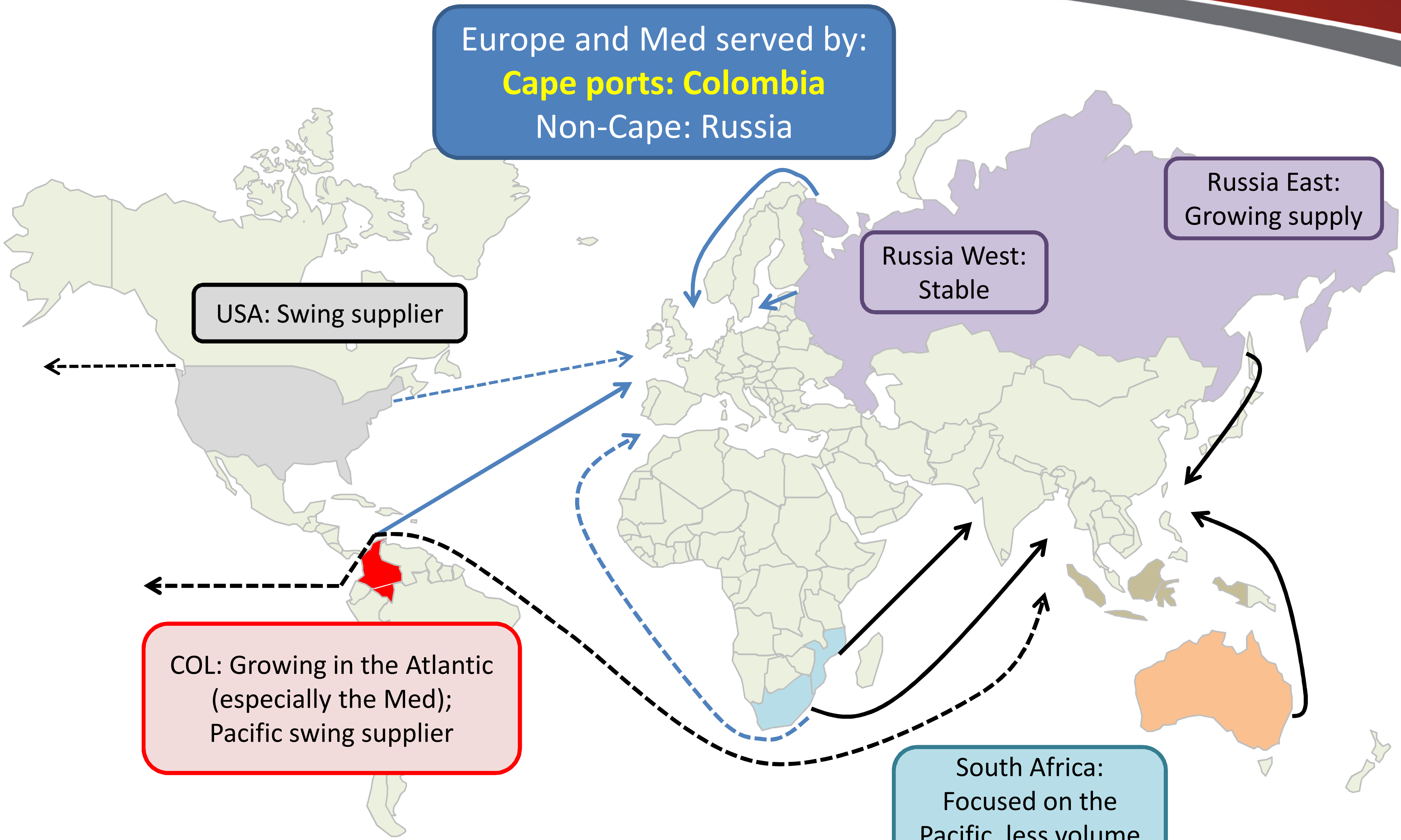
- Colombian producers embarked on projects to increase output during the price boom in 2008 (as everywhere else); however not all potential production have came online:
  - There is still some spare capacity (although relatively small as a result of the increase last year)
  - On the production front, some additional investment could unlock more volume to make use of the ready available export infrastructure
- As US exports largely disappear and South Africa focuses on the Pacific, Colombian and Russian coal will dominate supply in Europe and the Med
  - Russia will continue to serve NWE demand, complemented by Colombian coal where capesize ports are available or there are special requirements
  - In contrast, Colombia will grow in the Med, with Russia usually competitive only in non-cape discharge ports or where there are special requirements
- As total demand in the Atlantic stagnates (or declines) Colombia will need to look for the growing but more distant markets in the Pacific

New Supply Order: how it works



Final remarks

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- As the market evolves, it is also becoming more complex and prices are influenced by a wider range of factors: FX, oil, gas, weather and environmental policy
- Global supply and demand balance is notoriously difficult to predict: consultancies regularly get it wrong
- Although overall Atlantic market is shrinking, there is an important source of new demand originating in the Mediterranean
- The focus remains in what happens in the Pacific, but in particular what happens in China: what would be the next policy move? Weather? The new plenum?
- Surging demand in South Asia will keep the Pacific market strong
- Colombian producers are reacting to demand trends: exports are falling to Europe, increasing in the Mediterranean, and venturing in the Pacific
- Colombia will remain an Atlantic player but:
  - when the arbitrage opens the Pacific market will be targeted (FOB differentials together with low freight rates allow)
  - Over time, as Atlantic demand decreases and should Colombia continue to grow, it will be necessary to look to the Pacific as a permanent option